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SUBJECT: NICARAGUAN SEAFOOD SECTOR HIT HARD BY GLOBAL ECONOMIC DOWNTURN

SUMMARY

¶1. Seafood is a major industry for Nicaragua and the country's fifth leading export. The industry concentrates on cultivated shrimp and wild-harvested lobster. Seafood production employs 55,000 people nationwide, of whom 20,000 live and work on the Caribbean coast, where the industry is the major employer. The majority of seafood is exported to the United States. While exports increased overall in 2008 over 2007, market prices for cultivated shrimp and lobster fell dramatically during the last quarter of 2008. Industry officials predict that 2009 exports may fall by as much as 50%. With demand for high-end seafood products such as lobster and shrimp down sharply in the United States and Europe as the result of the global economic crisis, the Nicaraguan seafood industry has been hit hard.

THE INDUSTRY

¶2. The Nicaraguan seafood industry produces four main products: cultivated shrimp, wild-harvested shrimp, lobster, and an assorted variety of mostly ocean-caught fish. Cultivated shrimp and lobster are the primary products, accounting for 80% of the dollar value of Nicaragua's seafood exports. Cultivated shrimp is produced largely in the northwest, while lobster is harvested along the Caribbean coast. Eighty percent of Nicaragua's seafood catch comes from the Caribbean coast, which has the largest continental shelf in Central America. Small in population, the Caribbean coast relies on the seafood industry as its largest employer. According to the Nicaraguan Chamber of Fisheries (CAPENIC), the industry accounts for up to 70% of the local economy there, employing as many as 20,000 people. Nationally, the seafood industry employs 55,000 people. In recent years, seafood has been a dynamic growth industry for Nicaragua, generating approximately 1.5% of GDP and climbing to Nicaragua's fifth leading export.

THE EXPORT MARKET

¶3. Almost all Nicaraguan seafood is exported. According to CAPENIC, 95% of domestically produced seafood products are sold on the international market, mostly in the United States. Historically, up to 90% of Nicaragua's seafood products have been exported to the United States. In the last two years, seafood exports to Europe have increased. One reason is because Pescanova, the giant Spanish seafood company, acquired the U.S.-owned Camarones de Nicaragua (producers of cultivated shrimp) in 2006 and, in 2008, opened the largest shrimp processing plant in the Western Hemisphere. Another shrimp producer, Sahlman Seafoods (U.S.), has shifted up to 60% of its shrimp exports to Europe. The Nicaraguan Center for Export Procedures (CETREX) reports exports of \$116 million in seafood in 2006, \$121 million in 2007, and \$146 million in 2008 -- a 26% increase in two years.

¶4. Both the volume and value of Nicaraguan seafood exports increased significantly in 2008. The increase in dollar-value exports in 2008 was driven by a 70% increase in the value of exports of cultivated shrimp. For the first time, cultivated shrimp overtook lobster as Nicaragua's main seafood export.

GLOBAL COLLAPSE IN DEMAND

¶5. While the first three quarters of 2008 were very successful, U.S. and international demand for luxury foods such as lobster collapsed in the final quarter of 2008 under the weight of the growing global economic crisis. In the last four months of 2008, CAPENIC estimates that Nicaraguan shellfish exports fell by 30%. Today, local industry has built up an inventory of around 500,000 pounds of lobster and 200,000 pounds of shrimp, bringing production to a halt. Half of the lobster inventory has been shipped to the United States, where it sits in cold storage waiting for a buyer. Storage costs between 3 to 5 cents per pound per month, translating into a monthly storage cost for this industry of around \$30,000. In 2009, CAPENIC estimates that seafood product exports may fall by as much as 50% from 2008 levels, putting thousands of artisanal fishers, mainly from the Caribbean, out of work.

CULTIVATED SHRIMP

¶6. In 2008, the value of Nicaraguan exports of cultivated shrimp increased by 70% over 2007, making it the country's leading seafood export. The country exported \$63 million of cultivated shrimp in 2008, up from \$37 million in 2007. This increase is a result of a 28% increase in the average market price of cultivated shrimp for the year and a 31% increase in export volume in Nicaragua.

¶7. Though cultivated shrimp exports showed strong growth during 2008, the market has not escaped the global economic decline. The market price for cultivated shrimp fell significantly during the last quarter of 2008, coming in at

14% lower in January 2009 than in January 2008. Nevertheless, large producers, such as Camarones de Nicaragua, owned by Pescanova of Spain, and Sahilman Seafoods, have both the capital and the storage capacity to survive a down market. In addition they can shift production from larger, more expensive shrimp to smaller shrimp, which are less expensive and thus less affected by a decline in global demand.

CARIBBEAN LOBSTER

¶8. For lobsters, the situation is considerably more complex. In 2008, the average market price of lobster rose by 12%, resulting in a 9% increase in the value of lobster exports for the year, despite a slight decrease in volume. These figures partly reflect the exceptionally high price of \$22 per pound in early 2008. The price collapsed in the last quarter of the year to \$10 per pound in January, 2009. According to CAPENIC, \$12 per pound is the break-even price. Producers have been sitting on inventory hoping that the price would recover, but are now beginning to sell at a price that at least covers the cost of production. The value of lobster exports in January 2009 was 70% below that of January 2008.

¶9. The lobster industry largely depends on artisanal fishermen, many of whom still dive for lobster rather than use traps. Poor diving practices, which legislation is attempting to halt, have resulted in widespread decompression sickness among divers. These men, who increasingly dive in deeper water because shallow waters have been picked clean, lack the wherewithal to survive a market downturn. As a result, the crisis in the export market is likely to force many of them out of business. The fall in demand for lobster follows on the heels of high fuel prices in 2008 and the economic devastation of Hurricane Felix in 2007.

FISH AND WILD-HARVESTED SHRIMP

¶10. In addition to lobsters and cultivated shrimp, Nicaragua exports wild-harvested shrimp and assorted species of fish. In 2008, Nicaragua exported \$8.3 million worth of wild shrimp, 30% less than in 2007. Shrimp trawlers are now located exclusively on the Caribbean coast, as harvests off Nicaragua's Pacific coast declined steadily since 1999 and ceased in 2007. As with lobster, global demand for wild shrimp has declined, leading to a large inventory of unsold shrimp.

¶11. Nicaraguan fish exports, caught off both coasts, have remained relatively stable. Nicaragua exported about \$22 million worth of fish in 2008, approximately the same amount as it exported in 2007. While a significant export commodity, Nicaragua's fish exports are valued at less than half the per pound price of lobster or shrimp exports. The leading species are red snapper and snook. Nicaragua also exports some freshwater fish, 40% of which is tilapia farmed in Lake Nicaragua. With an abundance of fresh water and a warm climate, Nicaragua has the best conditions in Central America for farming tilapia.

HELP FROM THE GOVERNMENT?

¶12. In response to the decline in global demand, lobster producers and industry representatives are requesting government subsidies, plus a moratorium on new trawlers.

COMMENT

¶13. (SBU) As widely reported in the local press, producers and exporters continue to be unable to sell their product in overseas markets at a profitable price, threatening thousands of jobs, especially on the Caribbean coast. While the government has held talks with Russian and Iranian officials hoping to open new markets for Nicaraguan seafood, the likelihood that this will result in quick sales is not high. It is also unlikely that the government will dedicate scarce budget resources to subsidies or long-term structural reforms in support of the industry in the near term.

CALLAHAN